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C O N F I D E N T I A L SECTION 1 OF 6 LISBON 2346

E.O. 11652: GDS
TAGS: AMGT ECON MILI PFOR PINT PO
SUBJECT: ANNUAL POLICY ASSESSMENT FOR PORTUGAL

REFS: (A) STATE 38356, (B) STATE 38338, (C) STATE 41169,
(D) 76 LISBON 1336

1. U.S. INTERESTS: OUR INTERESTS -- ALL OF WHICH RELATE
TO U.S. NATIONAL SECURITY -- REMAIN ESSENTIALLY AS STATED
IN OUR 1976 ANNUAL POLICY ASSESSMENT (REF D). THEY INCLUDE:
-- PORTUGAL AS AN ACCEPTED PARTNER PULLING ITS FULL WEIGHT
IN THE ATLANTIC ALLIANCE;
-- PORTUGAL WELL ON THE ROAD TO ECONOMIC RECOVERY;
-- CONTINUED USG ACCESS TO AZORES BASE FACILITIES.

2. OVERVIEW:
A. THE LONG ROAD BACK: THE DEMOCRATIC FORCES IN PORTUGAL
HAVE COME A LONG WAY SINCE THE DARK DAYS OF 1975 WHEN THE
COUNTRY SEEMED TO BE ON THE VERGE OF A COMMUNIST DICTATOR-
SHIP. THE PORTUGUESE, WITH A FEW STRATEGIC ASSISTS FROM
THEIR FRIENDS, HAVE TURNED THE SITUATION AROUND. FOUR
TIMES IN THE SPACE OF TWO YEARS THE PORTUGUESE WENT
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TO THE POLLS AND EACH TIME REAFFIRMED THEIR OVER-
WHELMING CONFIDENCE IN THE NON-COMMUNIST ALTERNATIVE.
DEMOCRATIC INSTITUTIONS ARE IN PLACE AND FUNCTIONING.
ARMED FORCES COHESION AND SELF-CONFIDENCE ARE BEING
RESTORED. THE WRENCHING EXPERIENCE OF SEARCHING FOR
A NEW NATIONAL IDENTITY AFTER BEING FORCED TO CUT THE
STRING ON A COLONIAL PAST SPANNING MORE THAN 400 YEARS

IS BEING HANDLED REMARKABLY WELL. A HALF MILLION RETURNEES FROM THE FORMER AFRICAN COLONIES HAVE BEEN ABSORBED IF NOT ASSIMILATED. IN SHORT, THE RECOVERY PROCESS IS UNDERWAY.

B. TRENDS AND PROBLEMS: THE CHALLENGE FACING PORTUGAL, AND THOSE WITH A STAKE IN THE OUTCOME, IS HOW TO PROMOTE ECONOMIC RESTRUCTURING AND RECOVERY WHILE STRENGTHENING NASCENT DEMOCRATIC INSTITUTIONS. THIS IS ESSENTIALLY A PORTUGUESE RESPONSIBILITY. BUT THE EUROPEAN COMMUNITY AND THE UNITED STATES HAVE IMPORTANT ROLES. THE TRENDS ARE NOT ENTIRELY ENCOURAGING:

-- THE ECONOMY WILL NOT RESPOND QUICKLY. IN ADDITION TO ITS OWN BEST EFFORTS, PORTUGAL WILL NEED MORE HELP. THE SLOW PACE OF RECOVERY, CONTINUING HIGH INFLATION, A RISING COST OF LIVING, AND THE BITE OF AUSTERITY MEASURES WILL INCREASE PRESSURES ON THE GOVERNMENT FROM BOTH THE LEFT AND THE RIGHT.

-- THE COMMUNISTS, WITH CONTINUED SUPPORT FROM THE USSR AND EASTERN EUROPE, WILL PURSUE THEIR EFFORTS TO RALLY OPPOSITION TO THE GOVERNMENT'S ECONOMIC PROGRAM AND TO EXPLOIT ANY LACK OF COHESION WITHIN THE ARMED FORCES OR THE DEMOCRATIC PARTIES.

-- THE STRESSES INHERENT IN WHAT PROMISES TO BE A SLOW AND IDFFICULT ADJUSTMENT PROCESS WILL ENCOURAGE ADVENTURISM BY EXTREMISTS. EQUILIBRIUM WILL BE DIFFICULT TO MAINTAIN.

-- ON THE LABOR SCENE, THE COMMUNIST-DOMINATED CGTP WILL CONTINUE TO CONSOLIDATE ITS POSITION AS PS EFFORTS TO BUILD A RIVAL TRADE UNION STRUCTURE FLOUNDER AND CONFIDENTIAL

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THE GOVERNMENT FACES INCREASING PRESSURE TO COME TO TERMS WITH CGTP IN THE INTERESTS OF LABOR HARMONY.

-- PRESSURES WILL MOUNT ON THE PRESIDENT TO TAKE DECISIVE ACTION TO UNBLOCK THE SITUATION; HIS DEMOCRATIC OPTIONS ARE LIMITED.

C. EUROPE HOLDS THE KEY DESPITE THE PROBLEMS WHICH PORTUGAL MUST FACE, THERE IS ROOM FOR OPTIMISM. AFTER MONTHS OF HESITANCY, THE SOARES GOVERNMENT HAS MOVED TO PUT THE ECONOMY ON THE ROAD TO RECOVERY. THE ECONOMIC MEASURES ANNOUNCED FEB 25, TOGETHER WITH THE POLITICAL RESOLVE THEY REFLECT, ARE PROMISING. "EUROPE IS WITH US," THE SLOGAN USED SO EFFECTIVELY BY THE SOCIALISTS IN LAST YEAR' LEGISLATIVE ASSEMBLY ELECTIONS, IS THE BASIS OF SOARES'S POLITICAL AND ECONOMIC STRATEGY. FXR EANES, SOARES, AND THE PORTUGUESE DEMOCRATIC PARTIES, A POLITICAL GREEN LIGHT FROM THE NINE, SUCCESSFUL CONCLUSION OF THE CVNSORTIUM LOAN AND TANGIBLE EVIDENCE OF PROGRESS ON THE NATO-ORIENTED FORCE MODERNIZATION PROGRAM WOULD SEAL THE MOVEMENT INTO EUROPE AND SYMBOLICALLY DRAW THE CURTAIN

ON PORTUGAL'S INFATUATION WITH COMMUNISM.

D. ISOLATING THE VARIABLES: IT TAKES NO GREAT
PUNDIT TO IDENTIFY THE FACTORS WHICH WILL LARGELY
DETERMINE THE SUCCESS OR FAILURE OF PORTUGAL'S
EFFORT TO MAKE DEMOCRACY WORK. THEY INCLUDE:
--HE PACK OF ECONOMIC RECOVERY: THIS IS PROBABLY
THE SINGLE MOST IMPORTANT FACTOR. UNCHECKED DETERIORATION
OF THE ECONOMY WULD PLACE IRRESISTIBLE PRESSURES ON
STILL FRAGILE DEMOCRATIC INSTITUTIONS.
-- WILLINGNESS OF OTHERS TO HELP: THE EUROPEANS CARRIED
THE BULK OF THE LOAN DURING THE PAST YEAR.
SOARES'S SOCCALIST INTERNATIONAL CVNNECTIONS PAID OFF.
WITH THE GERMANS LEADING THE WAY,THE EUROPEANS
PROVIDED MORE THAN \$1.5 BILLION IN CREDITS TO
PORTUGAL DURING THE PAST TWO YEARS. THE CONSORTIUM
ARRANGEMENT WILL BE THE PIVOTAL FACTOR IN PROVIDING
THE INCENTIVE AND WHEREWITHAL TO MAKE THE MOVE INTO
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C O N F I D E N T I A L SECTION 2 OF 6 LISBON 2346

THE EUROPEAN MAINSTREAM IRREVERSIBLE.
-- COHESION OF THE SOCIALISTS SOARES'S NON-IDEOLOGICAL
APPROACH TO THE PROBLEMS OF ECONOMIC RECOVERY HAS THE
OVERWHELMING SUPPORT OF THE PARTY'S MODERATE LEADER-

SHIP. BUT CLEAVAGE HAS DEVELOPED WITH THE PARTY'S LEFT WING. PRAGMATISTS AMONG THE LEFTWINGERS AGREE WITH SOARES THAT IDEOLOGY MUST TAKE A BACK SEAT TO THE URGENT TASKS OF ECONOMIC RECOVERY. PURISTS, LIKE FORMER AGRICULTURE MINISTER ANTONIO LOPES CARDOSO, ARE UNCONVINCED. ALTHOUGH THE PARTY ORGANIZATION HAS CLOSED RANKS BEHIND SOARES, LEFT-WING DISSIDENTS CONTINUE TO PROVIDE A POTENTIAL RALLYING POINT FOR OPPOSITION TO POLICY LINES CONGENIAL TO US.

-- UNITY OF THE ARMED FORCES: PRESIDENT EANES HAS GREATLY STRENGTHENED ARMED FORCES COHESION. DISCIPLINE AND RESPECT FOR HIERARCHY HAVE BEEN LARGELY RESTORED. RECENT INCIDENTS IN SEVERAL UNITS, HOWEVER, ARE DISTURBING EVIDENCE THAT SOFT SPOTS REMAIN; THE COMMUNISTS HAVE NOT GIVEN UP THEIR EFFORTS AT DESTABILIZATION.

-- THE TRADE UNION MOVEMENT: THIS REMAINS A MAJOR SOURCE OF CONCERN. THE JANUARY INTERSINDICAL CONGRESS OF ALL TRADE UNIONS HAS FASTENED PCP DOMINATION ON THE LEADERSHIP OF PORTUGAL'S SINGLE LABOR CONFEDERATION
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MORE FIRMLY THAN EVER. DEMOCRATIC ELEMENTS ARE DISORGANIZED, LACK TRAINED CADRES, AND MUST OPERATE IN AN ENVIRONMENT IN WHICH OPPOSITION TO GOVERNMENT-IMPOSED AUSTERITY MEASURES STRIKES A RESPONSIVE CHORD WITH MOST WORKERS.

-- COOPERATION AMONG DEMOCRATIC PARTIES: DESPITE RECENT HOPEFUL SIGNS OF INCREASING COOPERATION, MORE STRAINS ARE UNDOUBTEDLY IN STORE. THE SOCIALISTS ARE DETERMINED TO PURSUE THEIR GO-IT-ALONE STRATEGY, ESCHEWING COALITIONS EITHER TO THE LEFT OR THE RIGHT. THE CDS LEADERSHIP HAS ADOPTED A SUPPORTIVE ATTITUDE, BUT THIS SUPPORT COULD EVAPORATE SHOULD THE POLITICAL CLIMATE MOVE FARTHER TO THE RIGHT. GEN GALVAO DE MELO'S RECENT EFFORTS TO WHIP UP SUPPORT AMONG RETUREES FROM THE FORMER AFRICAN COLONIES POINT UP CDS VULNERABILITY ON ITS RIGHT FLANK. THE PSD, UNDER THE MERCURIAL SA CARNEIRO, CONTINUES TO PRESS FOR A SHARE OF THE POWER. ALL THIS POINTS UP THE IMPERMANENCE OF THE CURRENT POLITICAL ALIGNMENT. THE DEMOCRATIC PARTIES STILL TEND TO REFLECT INDIVIDUAL LEADERSHIP MORE THAN IDEOLOGY AND, UNDER PRESSURES GENERATED BY A POLITICALLY-DIFFICULT ECONOMIC ADJUSTMENT, SHIFTS IN PARTY STRUCTURES, COMPOSITION AND ALIGNMENT ARE LIKELY.

-- THE COMMUNIST STRATEGY THE COMMUNISTS HAVE STEPPED UP THEIR PRESSURE AGAINST THE GOVERNMENT, ZEROING IN ON THE ECONOMIC PROGRAM AND ATTEMPTING TO COMPLICATE PORTUGAL'S BID FOR ENTRY INTO THE EUROPEAN COMMUNITY. SOME, INCLUDING PRISIDNT EANES, BELIEVE THIS SIGNALS AN ALL-OUT PCP OFFENSIVE DESIGNED TO FORCE IMPOSITION OF AN AUTHORITARIAN

REGIME, EITHER OF THE LEFT OR THE RIGHT. THE
COMMUNISTS SEEM INCLINED TO TAKE MORE RISKS IN
UPPING THE ANTE, PARTICULARLY IN THE LABOR SECTOR
BUT A PCP SCORCHED EARTH STRATEGY WOULD PUSH THE
DEMOCRATIC PARTIES CLOSER TOGETHER, FURTHER ISOLATING
THE COMMUNISTS, WITH NO ASSURANCE THAT AN AUTHORITARIAN
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GOVERNMENT WOULD ENSUE CUNHAL, HOWEVER HAS
MISCALCULATED HIS STRENGTH BEFORE. AND UNDER THE GROWING
PRESSURE OF EVENTS HE COULD DO AGAIN.

-- THE EUROCOMMUNIST OPTION: THE EUROCOMMUNIST WINDS
OF CHANGE HAVE THUS FAR HAD NO APPRECIABLE EFFECT UPON
THE PORTUGUESE COMMUNISTS. CUNHAL IS STILL CUNHAL,
MOSCOW'S MOST FAITHFUL SERVANT IN WESTERCEUROPE. THE
SOCIALISTS LOVE IT SOARES CONSIDERS AN INTRANSIGENT
PCP ONE OF HIS GREATEST ASSETS. SHOULD PORTUGUESE
COMMUNISTS MOVE TOWARD A MORE MODERATE LINE, A
REALIGNMENT OF FORCES ON THE LEFT COULD ENSUE.

-- THE ROLE OF THE PRESIDENT: PRESSURE WILL
CONTINUE TO BUILD UPON THE PRESIDENT, PARTICULARLY
FROM CONSERVATIVES, TO PLAY A MORE ACTIVE POLITICAL
ROLE. THE PRESIDENT IS KNOWN TO BE DISSATISFIED
WITH PROGRESS TO DATE IN ECONOMIC RECOVERY. FAILURE
OF THE ECONOMY TO RESPOND, OR AN UNCERTAIN RESPONSE TO
PCP-GENERATED SOCIAL UNREST COULD FORCE THE PRESIDENT'S
HAND. EANEZ IS A STRICT CONSTRUCTIONIST, COMMITTED TO
SUPPORTING THE CONSTITUTION. BUT, WITH GREAT RELUCTANCE,
HE WOULD PROBABLY RESORT TO EXTRA-CONSTITUTIONAL
MEANS IF HE BELIEVED PORTUGAL'S COMMITMENT TO THE WEST
WAS IN JEOPARDY.

E. FIND TUNING U.S. POLICY WE SHOULD CONTINUE TO REINFORCE
PORTUGUESE TIES TO EUROPE CURRENT POLICY LINES ARE
SOUND BUT WE MUST KEEP THE HEAT ON THE EUROPEANS NOT
TO RELAX THEIR SUPPORT.

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C O N F I D E N T I A L SECTION 3 OF 6 LISBON 2346

-- MULTILATERAL SUPPORT: WE SHOULD CONTINUE TO PRESS
OTHERS WITH A CAPACITY TO HELP TO JOIN IN THE EFFORT
TO PROMOTE PORTUGUESE ECONOMIC RECOVERY. EMPHASIS
ON THE MULTILATERAL ASPECT, HOWEVER, MUST NOT TRANSLATE
INTO ANY FALGGING OF U.S. SUPPORT FOR THE RECOVERY
EFFORT. WITHOUT US. THE EUROPEANS WILL NOT GO ALONG.
-- BILATERAL SUPPORT: SO FAR SO GOOD. IT IS ESSENTIAL
THAT WE PROMPTLY FULFILL OUR COMMITMENT TO PLAY THE
LEADING ROLE IN THE CONSORTIUM.
-- FORCE MODERNIZATION: THE PROGRAM IS LAGGING. MORE JUICE
MUST BE TURNED ON. THE EUROPEANS MUST BE REVVED UP.

3. OBJECTIVES, COURSES OF ACTION, AND ISSUES:

A. OBJECTIVE INCLUDE:

(I) POLITICAL:

-- STRENGTHENED DEMOCRATIC INSTITUTIONS CAPABLE OF
PROMOTING ECONOMIC RECOVERY.
-- COOPERATION AMONG THE DEMOCRATIC PARTIES IN
PROMOTING RECOVERY AND ISOLATING THE COMMUNISTS.
-- STRENGTHENED PORTUGUESE TIES TO EUROPE.
-- FURTHER REDUCTION OF COMMUNIST INFLUENCE IN KEY SECTORS,
E.G. LABOR, AGRICULTURE, EDUCATION, THE MEDIA, AND THE
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BUREAUCRACY.

-- A REVITALIZED DEMOCRATIC LABOR EFFORT, CAPABLE OF
DISPLACING THE COMMUNISTS.
-- CONTINUED COOPERATION IN MULTILATERAL FORUMS; RATIFICATION
OF NPT.
(II) POLITICAL-MILIATRY:
-- CONTINUED UNDIMINSHED ACCESS TO AZORES FACILITIES
-- A LEAN, PROFESSIONAL NATO-ORIENTED MILITARY FORCE
(III) ECONOMIC:
-- ESTABLISHMENT OF A FUNCTIONING MARKET-ORIENTED ECONOMY,
OPEN TO FOREIGN TRADE AND INVESTMENT ON A NON-DISCRIMINATORY
BASIS.
-- REDUCED BALANCE OF PAYMENTS DEFICIT.
-- A RECOVERING PRIVATE SECTOR.

- A PUBLIC INVESTMENT PROGRAM CAPABLE OF SUPPORTING AN EXPANSION OF ESSENTIAL SOCIAL INFRASTRUCTURE.
- REDUCTION OF UNEMPLOYMENT, WHILE CAPPING INFLATION.
- IMPROVED PUBLIC PLANNING AND MANAGERIAL CAPABILITY.
- RESOLUTION OF INVESTMENT DISPUTES INVOLVING US FIRMS.

B. COURSES OF ACTION INCLUDE:

(I) POLITICAL:

- STRENGTHEN DEMOCRATITUTIONS BY FULFILLING OUR COMMITMENTS AND THROUGH EXPRESSIONS OF PUBLIC AND PRIVATE SUPPORT, INCLUDING TIMELY STATEMENTS, BOTH IN LISBON AND WASHINGTON.
 - ENCOURAGE NON-COMMUNIST TRADE UNIONS (TRADE UNION EDUCATION PROGRAM).
 - CONTINUED CLOSE CONTACT WITH MEMBERS OF PORTUGUESE FOREIGN POLICY DECISION-MAKING APPARATUS.
 - MAINTAN LINKS WITH KEY INSTITUTIONS, INCLUDING ARMED FORCES, MEDIA, AND CHURCH.
 - DISCOURAGE THE ULTRA RIGHT FROM ANY MOVE WHICH WOULD JEOPARDIZE PORTUGUESE DEMOCRACY AND FREEZ PORTUGAL OUT OF EUROPE.
 - DISCOURAGE AZOREAN SEPARATISTS, PARTICULARLY THOSE OPERATING IN THE UNITED STATES.
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- MAINTAIN STRONG US CULTURAL PRESENCE, WITH INCREASED EMPHASIS UPON POLITICAL MAINSTREAM, SPORTS, AND UNIVERSITIES; EMPLOY EXPANDED IVP PROGRAM IN SUPPORT OF MISSION-WIDE OBJECTIVES.

(II) POLITICAL-MILITARY:

- STEP UP SUPPORT FOR "NATO BRIGADE" AS FIRST PRIORITY IN PORTUGUESE FORCE MODERNIZATION PROGRAM.
- PARTICIPATE IN NATO EXCHANGE PROGRAMS.
- CARRY OUT NORMAL SCHEDULE OF SHIP VISITS; SERVICE EXCHANGES; AND JOINT TRAINING EXERCISES.
- RESPOND PROMPTLY AND FLEXIBLY DURING NEGOTIATIONS FOR RENEWAL OF AZORES AGREEMENT.

(III) ECONOMIC:

- COMPLETE ARRANGEMENTS FOR US-LED CONSORTIUM.
- LINED SUPPORT AND ENCOURAGEMENT TO DECISION-MAKERS CHARGED WITH ECONOMIC RECOVERY AND RESTRUCTUTING.
- SUCCESSFULLY CONCLUDE AID LENDING PROGRAMS UNDERWAY; UNDERTAKE NO NEW PROJECT LENDING EXCEPT AS REQUIRED BY OUT-COME OF AZORES NEGOTIATIONS; CONTINUE OTHER COMPONENTS OF USG FINANCIAL ASSISTANCE, E.G. PL-480, CCC CREDITS, INCREASED EXIM LENDING.
- ENCOURAGE THE PRIVATE SECTOR THROUGH SPECIAL LINES OF CREDIT, ORGAIZATIONAL SUPPORT, AND TECHNICAL ASSISTANCE TO THE AGRICULTURAL SECTOR.
- ACT WHERE POSSIBLE TO ASSIST IN RESOLVING INVESTMENT DISPUTES INVOLVING US FIRMS; ASSURE THAT US FIRMS HAVE EUAL ACCESS TO INVESTMENT PROJECTS.

-- ASSIST PORTUGUESE EFFORTS TO ESTABLISH NEW INVEST-
MENT AND TRADE RELATIONSHIPS.

C. ISSUES:

(I) WHAT ROLE SHOULD THE UNITED STATES PLAY IN THE PORTUGUESE

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C O N F I D E N T I A L SECTION 4 OF 6 LISBON 2346

ECONOMIC RECOVERY EFFORT?: THE PACE OF ECONOMIC RECOVERY
WILL LARGELY DETERMINE PORTUGAL'S FUTURE. IF STEADY PROGRESS
IS MADE OVER THE NEXT SEVERAL YEARS, NASCENT DEMOCRATIC
INSTITUTIONS WILL TAKE HOLD. PORTUGAL'S EUROPEAN OPTION WILL
BE IRREVOCABLE. IF THE ECONOMY CONTINUES TO DETERIORATE, THE
EXTREMES WILL BE RESUSCITATED. THE GAINS OF THE PAST TWO YEARS
COULD BE EASILY DISSIPATED. TO HELP ENSURE THAT THIS DOES NOT
OCCUR, WE SHOULD:

-- CONTINUE TO PRESS FOR ADOPTION OF SOUND ECONOMIC POLICIES.
-- SEEK EARLY CONCLUSION OF ARRANGEMENTS FOR THE US-LED CON-
SORTIUM.
-- FULFILL OUR COMMITMENT TO PROVIDE THE MAJOR PORTION OF THE
FUNDS FOR THE CONSORTIUM.

REJECTED ALTERNATIVES:

-- ABANDON THE CONSORTIUM EFFORT AS TOO COMPLICATED AND TOO
WIDE A DEPARTURE FROM EXISTING MECHANISMS FOR PROVIDING BALANCE
OF PAYMENTS SUPPORT.
-- TIE US AID TO INCLUSION OF OTHER DEMOCRATIC PARTIES IN THE
GOVERNMENT, THE FINANCING OF INVESTMENT PROJECTS, ADOPTION OF
MORE BITING AUSTERITY MEASURES, AND PROGRESS ON SETTLEMENT OF
OUTSTANDING INVESTMENT DISPUTES.
-- SCALE DOWN PLANNED US CONTRIBUTIONS TO THE RECOVERY EFFORT
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ON THE GROUNDS THAT EUROPE MUST CONTINUE TO CARRY THE MAJOR PORTION OF THE COSTS.

-- PRESS FOR A MORE FORCEFUL ROLE FOR PRESIDENT EANES.

(II) WHAT ROLE SHOULD THE USG PLAY IN THE DEVELOPMENT OF A PROFESSIONAL, NATO-ORIENTED MILITARY FORCE: THE PORTUGUESE FORCE MODERNIZATION PROGRAM HOLDS THE KEY. OUR STRATEGY SHOULD SUPPORT PORTUGUESE EFFORTS TO OBTAIN THE HELP THEY NEED TO UPGRADE THE PROFESSIONALISM OF ALL THREE SERVICES. ON SPECIFICS, WE SHOULD BE GUIDED BY THE EQUIPMENT NEEDS OUTLINED BY PORTUGUESE REPRESENTATIVES TO THE NATO AD HOC COMMITTEE. PRIORITY SHOULD GO TO THE MIXED BRIGADE COMMITTED TO NATO, WITH RELATED AIR SUPPORT. TO THIS END WE SHOULD:

-- PROVIDE EQUIPMENT IN REQUISITE QUANTITIES TO OUTFIT A PARTIALLY AIR-TRANSPORTABLE INFANTRY BRIGADE.

-- PROVIDE ESSENTIAL BRIGADE-RELATED TRAINING.

-- CONTINUE, IN CONCERT WITH THE PORTUGUESE, TO PRESS OTHER NATO MEMBERS, PARTICULARLY THE GERMANS, TO HELP BY PROVIDING M48A5 TANKS, ARTILLERY AND AMMUNITION, AND ALL WHEELED VEHICLES FOR THE BRIGADE.

-- AIR FORCE MODERNIZATION: PRIORITY SHOULD GO TO PROVIDING ADDITIONAL C-130H AIRCRAFT FOR BRIGADE-RELATED TACTICAL AIRLIFT. WE SHOULD CONTINUE TO CONSULT CLOSELY WITH THE PORTUGUESE ON POSSIBLE ACQUISITION OF FIGHTER/BOMBER AIRCRAFT.

-- NAVY MODERNIZATION: A GOOD START WOULD BE TO MAKE IMPROVEMENTS TO THE THREE FRIGATES DEDICATED TO NATO, ENABLING THEM TO APPROACH FORCE STANDARDS. SINCE THE NORWEGIAN OSLO CLASS FRIGATE IS BASICALLY THE SAME CLASS AS THE PORTUGUESE FRIGATE, WE SHOULD CONTINUE TO ENCOURAGE THE NORWEGIANS TO PROVIDE ENGINEERING ASSISTANCE AND RELATED MATERIEL.

REJECTED ALTERNATIVES:

-- URGE GOP TO ACCEPT A PHASED, LONG-TERM MODERNIZATION PLAN WITH NO COMMITMENT AS TO SOURCE OF EQUIPMENT; THE U.S. CONTRIBUTION WOULD BE MADE THROUGH MAP AND WOULD BE COORDINATED WITH NATO ALLIES.

-- ENCOURAGE THE PORTUGUESE TO PLACE LESS EMPHASIS UPON
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FORCE MODERNIZATION ON THE GROUNDS THAT ALL AVAILABLE RESOURCES MUST BE DEVOTED TO ECONOMIC RECOVERY.

-- SHIFT OUR EMPHASIS TO THE MODERNIZATION OF THE AIR FORCE AND NAVY, FORCES WHOSE MISSION MAY BE MORE COMPATIBLE WITH NATO MILITARY REQUIREMENTS.

-- STAND DOWN IN OUR AGGRESSIVE SUPPORT OF THE MODERNIZATION PROGRAM. LET THE ALLIANCE DETERMINE THE PACE.

(III) WHAT SHOULD WE BE DOING TO PREPARE FOR THE AZORES TALKS?: TALKS WILL BEGIN IN EARNEST PROBABLY BEFORE THE END OF THE YEAR. THE AZOREANS HAVE ALREADY PUT THEIR CARDS ON THE TABLE; THEY WILL SEEK TO DRIVE A HARD BARGAIN. AZOREAN DETERMINATION WILL INCREASE PRESSURES ON THE CENTRAL GOVERNMENT TO PRODUCE A FAT SETTLEMENT. PORTUGUESE EXPECTATIONS WILL BE FED BY THE SPANISH AGREEMENT. BUT THE RECENT SUCCESSFUL CONCLUSION OF THE RFE/RL NEGOTIATIONS DEMONSTRATES THAT THE PORTUGUESE ARE UNLIKELY TO FORGET THE MAJOR AID ALREADY PROVIDED OR PLANNED. THE CLIMATE IS GOOD, BUT NEITHER WE NOR THE PORTUGUESE ARE READY FOR NEGOTIATIONS NOW. TO PREPARE FOR THE TALKS, WE SHOULD ESTABLISH AN INTER-AGENCY WORKING GROUP WITH INSTRUCTIONS TO COME UP WITH A POSSIBLE US GUIDE LIST BY AUGUST 15. THE QUICKER WE CAN RESPOND TO A PORTUGUESE INITIATIVE, THE MORE WE STAND TO BENEFIT FROM THE SPINOFF EFFECT OF PLANNED US FINANCIAL ASSISTANCE. WE WOULD ERR, HOWEVER, IN LINKING NEGOTIATIONS DIRECTLY TO US FINANCIAL ASSISTANCE. THE RESULTS WILL BE SUBJECTED TO MICROSCOPIC EXAMINATION, PARTICULARLY BY THE LEFT. AN EFFORT TO STAMPEDE THE PORTUGUESE INTO AN UNBALANCED AGREEMENT WOULD BE SELF-DEFEATING.

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IT WOULD PLACE GREAT STRAINS ON NASCENT DEMOCRATIC INSTITUTIONS. IT WOULD DIVIDE THE DEMOCRATIC PARTIES OR, EVEN WORSE, UNITE THEM AND THE COMMUNISTS AGAINST US. IT WOULD REVERSE THE HOPEFUL TREND TOWARD BETTER RELATIONS BETWEEN THE CENTRAL AND REGIONAL

AUTHORITIES. MORE IMPORTANTLY, IT WOULD NOT WORK. ON THE OTHER HAND, AN AGREEMENT WHICH STANDS ON ITS OWN, WITH DUE REGARD FOR AZOREAN SENSIBILITIES, WILL STRENGTHEN AZOREAN-MAINLAND RELATIONSHIPS AND WITHSTAND PORTUGUESE SCRUTINY OVER THE LIFE OF THE AGREEMENT.

REJECTED ALTERNATIVES:

-- BEND EVERY EFFORT TO BRING THE PORTUGUESE TO THE BARGAINING TABLE NOW. BUILD OUR NEGOTIATING POSITION UPON THE LINKAGE BETWEEN CONSORTIUM AID AND RENEWAL OF THE AZORES AGREEMENT, SPELLING OUT THE CONNECTION IN NEGOTIATIONS AND POSSIBLY IN THE TREATY ITSELF.

-- DRAG OUR FEET. DELAY NEGOTIATIONS AS LONG AS POSSIBLE; WHEN THEY START, STRING THEM OUT. THE CURRENT RENT-FREE ARRANGEMENT IS FINE FROM OUR STANDPOINT.

-- EXPLOIT SUSPICIONS BETWEEN THE CENTRAL AND REGIONAL CONFIDENTIAL

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GOVERNMENTS, IN AN EFFORT TO GET A BETTER DEAL BY PLAYING ONE AGAINST THE OTHER.

(IV) HOW CAN THE USG BEST CONTRIBUTE TO STRENGTHENING THE DEMOCRATIC LABOR MOVEMENT?: USG PROGRAMS, TO BE FULLY EFFECTIVE, SHOULD INCLUDE THE SOCIALISTS. IF WE CAN FIND A FORMULA WHICH WILL INCLUDE PSD UNIONS, SO MUCH THE BETTER. IMPROVING PS-PSD RELATIONS ARE A HOPEFUL SIGN. BUT MANY SOCIALISTS CONTINUE TO BELIEVE THAT COOPERATION WITH THE SOCIAL DEMOCRATS IN THE LABOR FIELD WOULD BE THE KISS OF DEATH. RECOGNIZING THE ADVANTAGES OF COOPERATION AMONG DEMOCRATIC TRADE UNIONISTS, WE SHOULD CONTINUE TO KEEP IN CLOSE TOUCH WITH ALL NON-COMMUNIST LABOR GROUPS IN AN EFFORT TO ARRIVE AT AN ACCEPTABLE ASSISTANCE ARRANGEMENT, PREFERABLY WITH EUROPEAN PARTICIPATION. IF THE SOCIALISTS REFUSE TO ACCEPT A PROGRAM OPEN TO ALL DEMOCRATIC TRADE UNIONISTS, HOWEVER, WE SHOULD BE PREPARED TO WORK WITH OTHER DEMOCRATIC LABOR ELEMENTS.

ALTERNATIVES:

-- GO WITH THE SOCIALISTS. ACCEPT COOPERATION ON THEIR TERMS, EVEN IF IT MEANS EXCLUDING OTHER DEMOCRATIC LABOR FORCES.

-- BACK OFF. LET THE PORTUGUESE CARRY THE BALL, EVEN AT THE RISK OF LITTLE BEING DONE.

(V) HOW CAN THE USG CAPITALIZE ON ACCUMULATED POLITICAL ASSETS IN PORTUGAL TO PROMOTE OBJECTIVES ELSEWHERE?

THE USG HAS ACCUMULATED SIGNIFICANT POLITICAL ASSETS IN PORTUGAL DURING THE PAST TWO YEARS. THIS RESERVE CAN BE DRAWN UPON IN SUPPORT OF U.S. POLICY OBJECTIVES ELSEWHERE. POSSIBILITIES INCLUDE:

-- THE "EUROCOMMUNISTS:" LARGELY FOR DOMESTIC POLITICAL REASONS, THE PORTUGUESE SOCIALISTS HAVE CULTIVATED RELATIONS WITH THE COMMUNIST PARTIES OF FRANCE, ITALY,

AND SPAIN. THE PCP, WEDDED TO MOSCOW ORTHODOXY,
SUFFERS BY COMPARISON. TO THE EXTENT THE PCP IS
TAMED DOMESTICALLY, SOARES WILL BE MORE WILLING TO
GEAR HIS MESSAGE TO OTHER EUROPEAN SOCIALISTS AND
COMMUNISTS TO BROADER INTERNATIONAL CONSIDERATIONS.
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-- CUBA AND ANGOLA: THE PORTUGUESE CAN PROVIDE A LINK
TO BOTH COUNTRIES AS WELL AS TO OTHER COUNTRIES IN
AFRICA. THE CUBANS MAINTAIN A LARGE DIPLOMATIC ESTABLISH-
MENT IN LISBON WHICH CONTINUES TO PAY LIP SERVICE
TO THE GLORIES OF APRIL 25 AND THE ARMED FORCES
MOVEMENT. DESPITE LINGERING BILATERAL PROBLEMS,
PORTUGUESE-ANGOLAN TIES REMAIN STRONG.
-- HUMAN RIGHTS: THE PORTUGUESE HUMAN RIGHTS RECORD
IS GOOD. SOARES'S NOMINATION FOR THE ANNUAL AWARD

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07
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OF THE INTERNATIONAL HUMAN RIGHTS LEAGUE ATTESTS TO
THIS. THE MAJOR DEMOCRATIC PARTIES HERE HAVE JOINED
IN CONDEMNATION OF REPRESSION OF SOVIET DISSIDENTS AND
THE "CHARTER 77" GROUP IN CZECHOSLOVAKIA. MORE SUCH
INITIATIVES ARE PLANNED.
-- THE SOCIALIST INTERNATIONAL: MARIO SOARES WAS
ELECTED A VICE PRESIDENT OF THE SOCIALIST INTERNATIONAL

LAST YEAR. SOARES AND THE PORTUGUESE SOCIALISTS
EXERT A MODERATING FORCE AMONG EUROPEAN SOCIALISTS.
TO THE EXTENT THAT THE NEW SI LEADERSHIP IS SUCCESSFUL
IN REINVIGORATING THE ORGANIZATION, THE PORTUGUESE
CONNECTION WOULD TAKE ON ADDED IMPORTANCE.

4. THE BOTTOM LINE: A CREEPING SENSE OF COMPLACENCY IS UPON
US. THE DRAMATIC TURN AROUND IN PORTUGAL MAY LULL
US INTO A FALSE SENSE OF SECURITY. BUT THIS IS
PRECISELY NOT THE TIME TO RELAX. THE WEST HAS MADE
PROGRESS IN PORTUGAL BY ENCOURAGING MODERATE ELEMENTS
WITH PROMISES OF SUPPORT. BUT IT IS THE DEMOCRATIC FORCES
WHO HAVE PUT PORTUGAL'S FUTURE AND THEIR OWN ON THE LINE. THEY
ARE NOW EXTENDED ABOUT AS FAR AS THEY CAN GO. THEY CANNOT
HOPE TO CONTROL THE COURSE OF EVENTS UNLESS WE NOW COME
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THROUGH. PRESIDENT EANES HAS DONE A REMARKABLE JOB
OF RESTORING DISCIPLINE AND SELF-CONFIDENCE TO THE
PORTUGUESE ARMED FORCES. HE HAS DONE THIS IN PART BY
HOLDING OUT THE PROSPECT OF A NEW NATO-RELATED MISSION.
COMPLETION OF THE OUTFITTING OF THE BRIGADE, TOGETHER
WITH THE RELATED AIR TRANSPORT, CAN -- PROVIDED IT
ARRIVES IN TIME -- PROVIDE THE CRITICAL MARGIN OF
DIFFERENCE. ECONOMIC ASSISTANCE IS EVEN MORE FUNDA-
MENTAL. EARLY COMPLETION OF THE ARRANGEMENTS FOR THE
U.S.-LED CONSORTIUM IS ABSOLUTELY ESSENTIAL. I HAVE
SAID IT BEFORE. AND WILL SAY IT AGAIN. PORTUGAL
AND THE WEST HAVE COME A LONG WAY, BUT IT ALL COULD
BE LOST IF WE EASE UP NOW.
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Message Attributes

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